



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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October 10, 2006

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Mark Doumit  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
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**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** October 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$998.1 million in the September 11 – October 10, 2006 period. Tax payments were \$37.4 million above the estimate for the month base on the September 2006 forecast. Consumer and business spending continues to increase at a faster pace than assumed despite a cooling housing market. This month's positive variance was entirely due to stronger than expected Revenue Act (retail sales business and occupation, use, and public utility) tax payments. Real estate excise tax payments and most other major Non Revenue Act taxes were below the estimate for the month. The higher than expected tax payments indicate that the drag of a softening housing market on economic activity has not yet slowed consumer and business spending.

Recent economic news has been mixed but continues to indicate a still healthy but slowing economy. Nationally only 51,000 new jobs were added in September, the weakest number since last October's 37,000 post Katrina increase. While the September job's number was weak, the August number was revised up by an unusually large 60,000 and the U.S. unemployment rate again fell in September to 4.6 percent from 4.7 percent in August. At the state level, the unemployment rate in Washington also dropped from 5.3 percent in July to 5.2 percent in August. Other indicators at the national level continue to point to slower growth ahead. The Conference Board reported that the U.S. Index of Leading Indicators fell again in August. The index has declined five of the last eight months and had decline 0.6 percent during the last six months. The Conference Board also reported that its Index of Consumer Confidence, which fell sharply in August, rose in September. Despite the gain in September it remains below the July level.

Revenue Act collections were \$44.5 million above the estimate this month. This includes \$6.0 million due to two unusually large and unexpected audit payments that are not related to the strength of current business activity. Receipts this period primarily reflect August 2006 activity of monthly taxpayers. Revenue Act collection growth rebounded strongly this period. For the month Revenue Act tax payments were 12.4 percent above the year-ago level (adjusting for special factors). This is about twice last month's 6.3 percent increase and is well above the growth of retail sales nationally and state personal income growth for the quarter. Revenue Act receipts have increased at a double digit rate three of the last four months and five of the last seven. This month's increase is the second strongest in the past year, surpassed only the 15.6 percent increase in May 2006. The slowdown in the residential housing market is underway but non residential activity is still strong and for now has forestalled any significant adverse impact on tax

payments. In addition, gasoline prices have recently come down significantly and may have help offset the drag on spending resulting from the cooling residential housing market.

Preliminary information on tax payments by industry for the current period shows continued strong growth in most sectors of the economy. Tax payments by firms in the retail trade and food services sector increased 8.7 percent. Last month retailers reported a 5.1 percent increase. Tax payments from the auto sector, the largest retail trade category, was up only 1.1 percent for the month, after declining 6.5 percent last month. Excluding autos, the retail trade sector increased 11.7 percent. Six of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were general merchandise stores (+21.7 percent), electronics and appliance stores (+14.9 percent) and non-store retailers (+13.3 percent). Payments by firms in non-retail trade and food services sectors were up 13.5 percent as a whole for the month. Last month tax payments from the non-retail trade sector increased 11.6 percent. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector remained very strong this month, with tax payments 19.9 percent higher than a year-ago. Last month this sector reported a 19.5 percent increase. Strong double-digit growth was reported by the manufacturing sector (+43.2 percent) and utilities (+14.7 percent). The only major sector reporting a year-over-year decline in tax payments this period was the professional, scientific and technical services sector (-0.4 percent). Tax payments of firms in construction and housing related sectors are still outpacing activity elsewhere with tax payment from construction related sectors up 14.4 percent compared to still very strong 10.3 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$7.1 million below the estimate for the month. Real estate excise tax payments (-\$5.3 million), liquor taxes (-\$603,000) and "other" (-\$2.7 million) were less than the estimate for the month. The shortfall in the "other" category was primarily unclaimed property transfers and brokered natural gas payments. Property tax payments were \$1.5 million higher than expected this month.

Washington's taxable real estate excise activity continues to slow. Real estate payments this month reflect closings reported by the state's thirty-nine counties for the August 30<sup>th</sup> through September 27<sup>th</sup>, 2006 period. Activity was 10.3 percent lower than a year-ago. This is the first year-over-year decline since April 2006 (-0.6 percent) and the largest decline since March 2002 (-20.2 percent). Last month (August) activity was 0.9 percent higher than a year ago. A breakdown of the number of transactions and average value per transaction is not yet available for September but in August, the number of transactions were 10.1 percent lower than a year-ago (the ninth consecutive monthly decline), while the average value per transaction increased 12.5 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$76,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the September 2006 forecast for the September 11, 2006 – October 10, 2006 collection period and cumulatively since the September forecast. The cumulative variance reported in the table is nearly identical to the variance for the month because the monthly estimates in the September forecast reflect actual collections through September 10, 2006. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**October 10, 2006 Collections Compared to the September 2006 Forecast**  
**Thousands of Dollars**

| <u>Period/Source</u>  | <u>Estimate*</u> | <u>Actual</u> | <u>Difference</u><br><u>Amount</u> | <u>Percent</u> |
|---|------------------|---------------|------------------------------------|----------------|
| <b>Sept. 11 - October 10, 2006</b>  |                  |               |                                    |                |
| Department of Revenue-Total   | \$960,281        | \$997,593     | \$37,312                           | 3.9%           |
| Revenue Act** (1)   | 866,271          | 910,725       | 44,454                             | 5.1%           |
| Non-Revenue Act(2)  | 94,010           | 86,868        | (7,142)                            | -7.6%          |
| Liquor Sales/Liter  | 13,303           | 12,700        | (603)                              | -4.5%          |
| Cigarette   | 4,508            | 4,412         | (96)                               | -2.1%          |
| Property (State School Levy)  | (12,295)         | (10,806)      | 1,489                              | -12.1%         |
| Estate  | 0                | 7             | 7                                  | NC             |
| Real Estate Excise  | 80,976           | 75,725        | (5,251)                            | -6.5%          |
| Timber (state share)  | 0                | 0             | 0                                  | NA             |
| Other   | 7,517            | 4,830         | (2,687)                            | -35.7%         |
| Department of Licensing (2)   | 464              | 540           | 76                                 | 16.3%          |
| Lottery (5)   | 0                | 0             | 0                                  | NA             |
| Total General Fund-State***   | \$960,745        | \$998,133     | \$37,388                           | 3.9%           |
| <b>Cumulative Variance Since the September 2006 Forecast (Sept. 11, 2006 - Oct. 10, 2006)</b> |                  |               |                                    |                |
| Department of Revenue-Total   | \$960,281        | 997,593       | 37,312                             | 3.9%           |
| Revenue Act** (3)   | 866,271          | 910,725       | 44,454                             | 5.1%           |
| Non-Revenue Act(4)  | 94,010           | 86,868        | (7,142)                            | -7.6%          |
| Liquor Sales/Liter  | 13,303           | 12,700        | (603)                              | -4.5%          |
| Cigarette   | 4,508            | 4,412         | (96)                               | -2.1%          |
| Property (State School Levy)  | (12,295)         | (10,806)      | 1,489                              | -12.1%         |
| Estate  | 0                | 7             | 7                                  | NA             |
| Real Estate Excise  | 80,976           | 75,897        | (5,079)                            | -6.3%          |
| Timber (state share)  | 0                | (0)           | (0.0)                              | NA             |
| Other   | 7,517            | 4,658         | (2,860)                            | -38.0%         |
| Department of Licensing (4)   | 464              | 529           | 65                                 | 14.0%          |
| Lottery (5)   | 0                | 0             | 0                                  | NA             |
| Total General Fund-State***   | \$960,745        | \$998,122     | \$37,377                           | 3.9%           |

1 Collections Sept. 11 - Oct 10, 2006. Collections primarily reflect August 2006 activity of monthly taxpayers.

2 September 2006 collections.

3 Cumulative collections, estimates and variance since the September 2006 forecast; (Sept. 11 - October 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2006 forecast; (September 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the September 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**September 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

| Period/Source                    | Collections | Revised   | Difference |         |
|----------------------------------|-------------|-----------|------------|---------|
|                                  | Preliminary |           | Amount     | Percent |
| Aug. 11 - September 10, 2006     |             |           |            |         |
| Department of Revenue-Total      | \$940,648   | \$937,707 | (\$2,941)  | -0.3%   |
| Revenue Act (1)                  | 841,306     | 841,306   | (0)        | -0.0%   |
| Non-Revenue Act(2)               | 99,343      | 96,402    | (2,941)    | -3.0%   |
| Liquor Sales/Liter               | 12,403      | 9,462     | (2,941)    | -23.7%  |
| Cigarette                        | 4,417       | 4,417     | (0)        | -0.0%   |
| Property (State School Levy)-net | (18,368)    | (18,368)  | (0)        | 0.0%    |
| Estate                           | 825         | 825       | (0)        | -0.0%   |
| Real Estate Excise               | 94,677      | 94,677    | 0          | 0.0%    |
| Timber (state share)             | 2,297       | 2,297     | 0          | NA      |
| Other                            | 3,092       | 3,092     | (0)        | -0.0%   |
| Department of Licensing (2)      | 1,030       | 1,019     | (11)       | -1.1%   |
| Lottery (2)                      | 0           | 0         | 0          | NA      |
| Total General Fund-State***      | 941,678     | 938,726   | (\$2,952)  | -0.3%   |

**Cumulative Receipts: June 11 - September 10, 2006 & Revisions to History**

|  |                    |                    |                  |              |
|--|--------------------|--------------------|------------------|--------------|
| Department of Revenue-Total                    | \$3,440,838        | \$3,435,222        | (\$5,616)        | -0.2%        |
| Revenue Act (3)                                | 2,720,855          | 2,720,855          | (0)              | -0.0%        |
| Non-Revenue Act(4)                             | 719,983            | 714,367            | (5,616)          | -0.8%        |
| Liquor Sales/Liter                             | 37,098             | 31,482             | (5,616)          | -15.1%       |
| Cigarette                                      | 14,801             | 14,801             | 0                | 0.0%         |
| Property (State School Levy)-net after transfr | 269,886            | 269,886            | 0                | 0.0%         |
| Estate   | 1,245              | 1,235              | (10)             | -0.8%        |
| Real Estate Excise                             | 346,639            | 346,812            | 173              | 0.0%         |
| Timber (state share)                           | 2,297              | 2,297              | 0                | NA           |
| Other  | 48,017             | 47,854             | (163)            | -0.3%        |
| Department of Licensing (4)                    | 10,175             | 10,198             | 23               | 0.2%         |
| Lottery (4)                                    | 0                  | 0                  | 0                | NA           |
| <b>Total General Fund-State***</b>             | <b>\$3,451,013</b> | <b>\$3,445,421</b> | <b>(\$5,592)</b> | <b>-0.2%</b> |

Preliminary. Reported in the September 10, 2006 collection report.

1 Collections August - Sept. 10, 2006. Collections primarily reflect July 2006 business activity of monthly taxpayers.

2 August 1-31, 2006 collections.

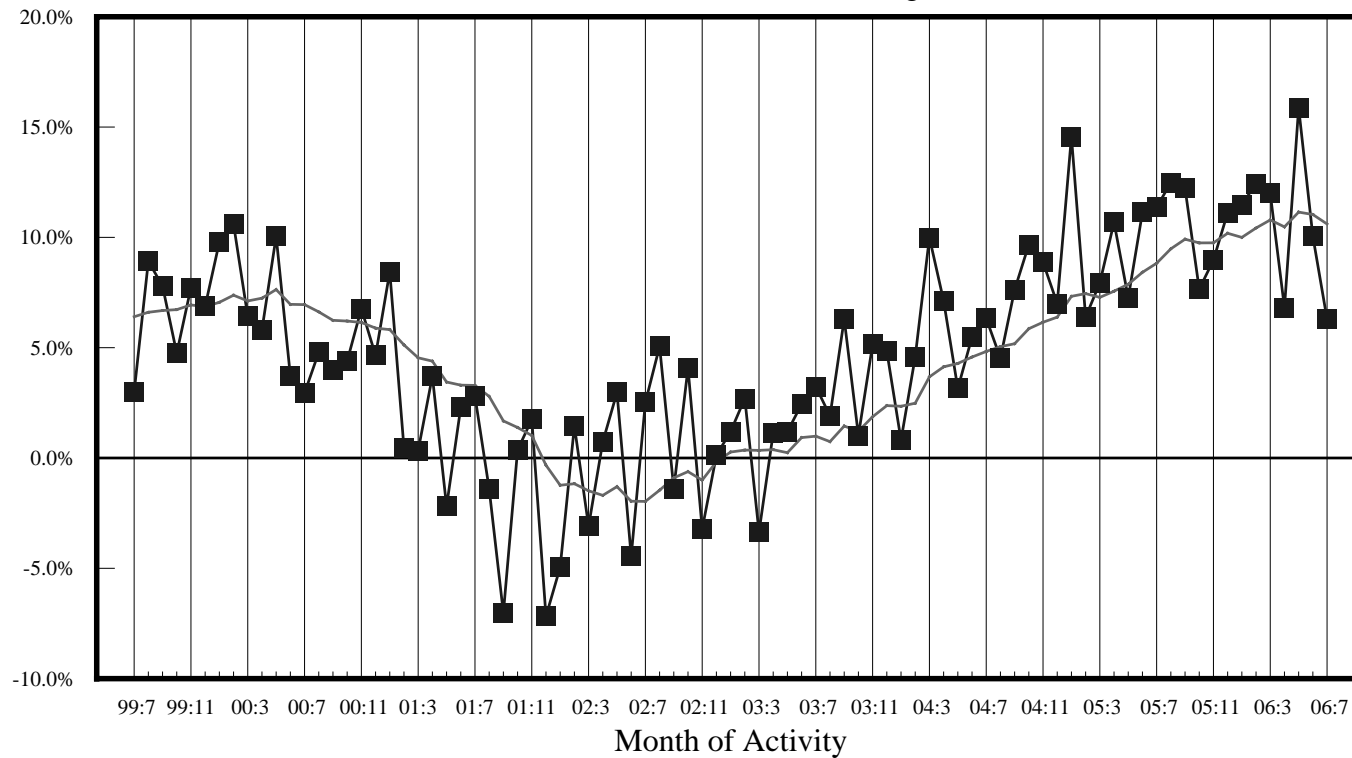
3 Cumulative receipts since the June 2006 forecast: June 11-Sept. 10,2006 & revisions to history.

4 Cumulative receipts since the June 2006 forecast ( June 2006- August 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections

Year-over-Year Percent Change



■ Percent change from year-ago month  
— Average Growth ( twelve month moving average.)

\*growth adjusted for new legislation and unusually large assessment payments/refunds etc.